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Trends in the Albanian Labour Market: Who are Albania's Unemployed?

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Abstract Albania's experience with transition is unlike most Eastern European countries. In particular, transition started from a deeply impoverished state, proceeded faster than other countries in the region, and was disrupted by financial sector crises. In addition, Albania experienced extreme population movements both abroad (to as many as twenty different countries) and within the country (from rural areas to major cities). All these changes combined have altered the composition of the local labour force in unknown ways. Understanding who Albania's unemployed are at present is important for policy decisions, especially given the double-digit unemployment rates of the last decade. In addition, employment stabilization policies in Albania are important from an international perspective, since Albania exports about 15–20% of its labour force to neighbouring countries. This paper uses administrative data from one of the largest, recently established labour offices, to gain insights into the composition and characteristics of Albania's unemployed.

Keywords Albanian labour market · Unemployment · Labour discrimination · Labour market policies · Transition economies

JEL Classification J8 · P2 · P3

Introduction

The most immediate effect of radical economic reforms in post-communist Albania was a sharp increase in unemployment. The privatization of former government-owned establishments resulted in a period of turbulence in the labour market,

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affecting both the demand and supply of labour. While many unprofitable establishments closed down, newly privatized industries required skills that were scarce in the Albanian labour market. At the same time, an underdeveloped financial sector and infrastructure left little chance for success and even contributed to the economic failure of many new enterprises. Further, population movements both abroad (to as many as twenty different countries) and within the country (from rural areas to major cities) changed the composition of the local labour force and placed additional strain on both the domestic and foreign labour markets.[1] Finally, the transition period was prolonged by the civil unrest of 1997 that followed the collapse of many pyramid schemes that had emerged in the country.[2] While privatization and population mobility have been analyzed in the literature alongside other transition phenomena, the labour market dynamics in Albania have so far escaped academic scrutiny. The main reason for this vacuum in the literature is the limited availability of micro-data on the Albanian labour market. In addition, transition resulted in substantial growth of the informal sector in Albania, making it hard to document and quantify the developments in the local labour market.[3] Analyzing unemployment in Albania is important from a policy perspective, since a better understanding of the current problems in this area can guide the choice of employment policies and shape future labour market institutions and legislation. In a country with official unemployment rates that have fluctuated between 12 and 18% during the past decade, such policies are imperative. In addition, assessing the effect of job training in replacing outdated skills and boosting employment is relevant to other reforms, such as recent efforts to advance vocational education and apprenticeship programs in the country. From an international perspective, employment stabilization policies in Albania are important, since labour-market crises in the country have, in the past, spilled over into the neighbouring countries. Finally, evidence on the Albanian labour market would add to a growing body of literature on the effects of transition policies in Eastern-European countries. In this context, it should be noted that Albania is somewhat unique in its experience of transition. First, Albania entered transition as the poorest Eastern European country. At the same time, reforms were instituted faster than in most other countries in the region. Finally, Albania experienced extensive population mobility, both abroad and within. Therefore, designing policies to aid the labour market in Albania, in addition to the experience obtained from other transition economies, also requires detailed information on the specific and unique conditions present in this country.

Employment initiatives were introduced for the first time in the Albanian labour market in 1999. The most significant development consisted of a number of "labour offices" established in major cities to facilitate job searching for job-seekers via employment counselling and contacts with potential employers. In addition, labour

[1] Although migration data are limited, in 2000 it was estimated that at least 15% of the Albanian population was living abroad. In addition, internal migration resulted in the growth of the urban population from 32% in 1970 to 42% (Albanian Center for Immigration Research 2002). For a description of Albania's migration during this time, see Kule et al. (1999) and Coulon and Piracha 2003.

[2] See Jarvis (2000) for an overview of the pyramid scheme crisis.

[3] According to the Albanian Central Bank, about 35% of the country's GDP is generated through informal (underground) activities.

offices created opportunities for on-the-job training, and provided short-term vocational training to people with obsolete skills. While the decision to use these services remains voluntary, unemployment benefits and other economic aid are channelled through these offices and thus, provide an incentive for job-seekers to register and update their status regularly.[4]

This study summarizes and synthesizes the unemployment situation in Albania during the period of 2000–2004. Using a variety of data sources, including administrative micro-data from the newly established labour offices, this study profiles the Albanian job-seekers. The analysis finds that older, less-educated, and less mobile workers are more likely to be unemployed. These findings call for pro-active age-discrimination policies, and education reform.

Overview of Unemployment in Albania during 1995–2005

This section employs official data from the Albanian Statistics Institute (INSTAT; http://www.instat.gov.al) and describes overall labour market trends during 1995–2005. According to INSTAT data, the unemployment rates in Albania have been consistently over 10% during the last decade (see illustration in Fig. 1). Two main observations surface from Fig. 1. First, the spike in unemployment in the years following the 1997 political unrest is quite evident, with unemployment reaching its peak in 1999 at 18.4%. This increase could also be due to better measures of

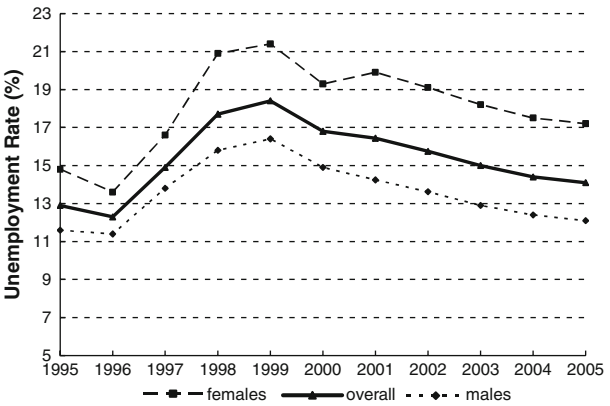

Fig. 1 Unemployment rates in Albania: 1995–2005

[4] Current law requires that unemployment benefits be paid out for 1 year to those who have paid unemployment insurance for a minimum of 12 months. Payment of unemployment benefits can be extended to 18 months if the person enrolls in training courses (vocational, formal, on-the-job, etc.), and does not receive any other compensation during the training period. People who have substantial assets, especially real estate or land, cannot receive unemployment benefits.

unemployment. The first labour reforms were introduced in 1999 and this year corresponds to the highest measured unemployment rate in the country. Another explanation for the high unemployment rates of this period is that government jobs were reduced by 36%.

The second observation refers to the large disparity in unemployment rates between males and females. This could be due to labour demand shocks, since the industries with the highest growth rates during this decade were construction and trade, both disproportionately employing men. However, this could also be due to gender discrimination.

More important differences in unemployment rates can be observed for different age groups and education levels. Figures 2 and 3 below show unemployment rates by age and educational attainment. From Fig. 2, it appears that unemployment is concentrated among older individuals, especially after 2001. Distribution of unemployment across age groups indicates two disturbing patterns. Unemployment rates are increasing for people over 35, while they are very low and decreasing for those between 15 and 19 years of age. Age discrimination is a commonly accepted practice in Albania. Many employers surveyed by labour offices explicitly restricted the desired age for applicants, often at age 35. The rationale for this restriction is that younger workers can be trained more easily, posses more up-to-date education, and are more likely to speak several foreign languages necessary for interacting with foreign investors, employers, or customers. The low unemployment rates for the young are possibly due to the lower labour force participation of this group. At the same time, they raise concerns for the employment of child labour, commonly practiced in rural areas.

Figure 3 illustrates that lower-education individuals make up the bulk of the unemployed. Interestingly, while unemployment rates for those without a high school degree appear quite similar to the unemployment rates of high school

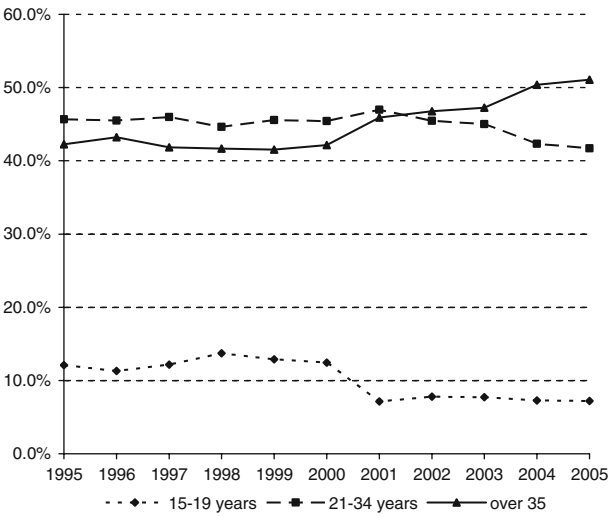

Fig. 2 Unemployment by age

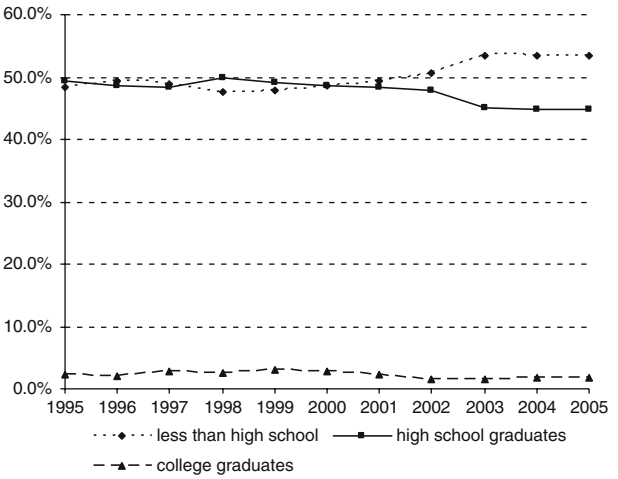

Fig. 3 Unemployment by education level

graduates until 2000, after this year, high school graduates appear to be more employable. These differences are both statistically and practically significant, ranging between 0.8 and 9 percentage points (p value $= 0.02$). These changes could in part be due to retraining, assuming that those with more education would be more likely to undertake training or enrol in adult vocational courses. Another possibility could be that more (typically unemployed) non-high school individuals are leaving the informal sector, and seeking employment in the formal labour market, thus inflating unemployment indicators for this demographic group.

While these trends are descriptive of the Albanian labour market, they do not provide any information on the causes of unemployment and future policy directions. The next section takes a closer look at these unemployment patterns using micro-data.

Labour Offices

In 1999, 12 regional labour offices were created to assist employment via information, job matching, short-course and on-the-job training. Every office services a few major cities and the surrounding villages. Typically, job seekers register in one of these offices, regardless of their employment status, and obtain information and services free of charge (except for short courses, which require a small fee). While these offices were established to serve primarily the needs of the unemployed, employed individuals who anticipate layoffs, are under-employed, or simply are looking for a better job, are also free to register and obtain assistance. The labour offices establish and maintain contacts with several local employers, and frequently survey them to inquire about job openings. If vacancies open, labour office staff actively try to match the job requirements with the qualifications of registered job-seekers on file. Labour offices also refer job-seekers to vocational

courses provided by Vocational Training Centres across the country. Created by the Ministry of Labour, these Centres offer short courses, ranging between 2 and 5 months and aim to provide new skills to displaced workers with obsolete job skills. Some of these courses cater to a particular employer or industry (e.g. textiles manufacturing), whereas others lead to self-employment in small businesses (e.g. hair salons, car repair shops, etc.). The primary role of labour offices is to gather and consolidate employment information and provide official statistics of unemployment. A number of job search and training services are provided through sub-offices or work agencies.

An important role of labour offices is tracking job-seekers over time as they enter and exit unemployment spells. The registration of job-seekers is an important development in and of itself, since a large portion of Albania's labour transactions are carried out informally. There is very little information, however, about the proportion of the labour force employed informally in the country.

Labour Office Data

The 12 regional offices described above contributed data for 2004 and the first 4 months of 2005. Detailed individual-level data were obtained from the second largest labour office, located in the capital (Tirana). The Tirana Labour Office data include information on about 50,000 job-seekers registered at any point in time during 2000–2005. The information collected by regional offices is better-suited to descriptive analyses, since for each individual only the most recent unemployment spell is recorded. The remaining 11 labour offices contributed data in aggregate form. While aggregate data present a broad view of the Albanian labour market, they may obscure interesting relationships between job-seeker characteristics and employment outcomes. For example, it could be that older workers are more likely to be unemployed because of a lack of education, instead of age alone (and potential age discrimination). Also, females may have less education or experience than males, which could be contributing to their lower employment rates. The policy prescriptions in either case would be very different.

Figure 4 below illustrates the number of unemployed individuals registered in any of the 12 regional offices by the end of 2004. The official figure of 157,000 unemployed individuals for 2004 is obtained as the sum of unemployed individuals registered in each of the labour offices. Based on the number of the registered unemployed, two offices emerge as the largest, namely that of Shkoder and that of Tirana. Females appear to represent roughly half of the registered unemployed. As pointed out earlier, most of the unemployed tend to have primary education or high school diplomas and tend to be older. Figures 5 and 6 below provide more detail into the education level and age composition for each regional office.

According to Fig. 6, older workers appear more likely to be unemployed, and this pattern is observed in almost all regions. The exception is Shkoder, where the largest age group among the unemployed includes individuals between the ages of 20–24. Vlore and Durres have the highest percentages of unemployed individuals who are older (over 45 years). It is perhaps not a coincidence that these two cities are major

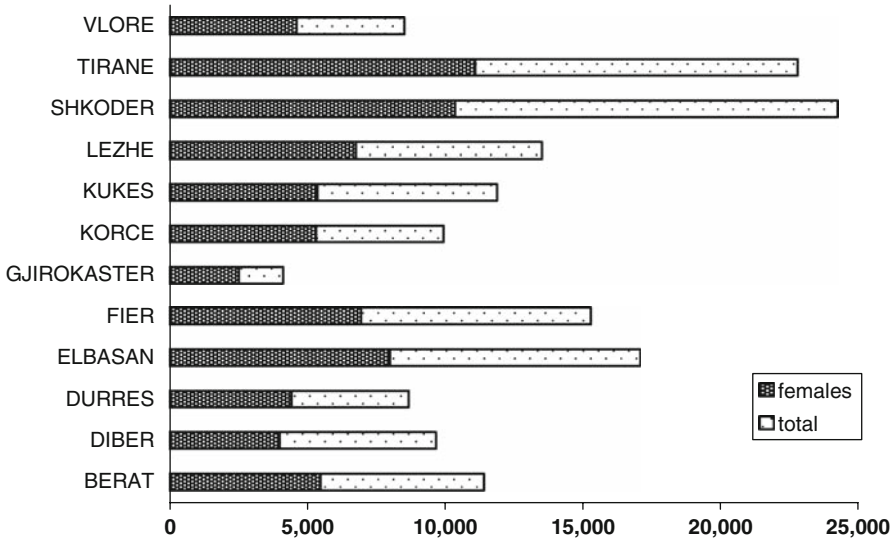

Fig. 4 Registered unemployment by regional office

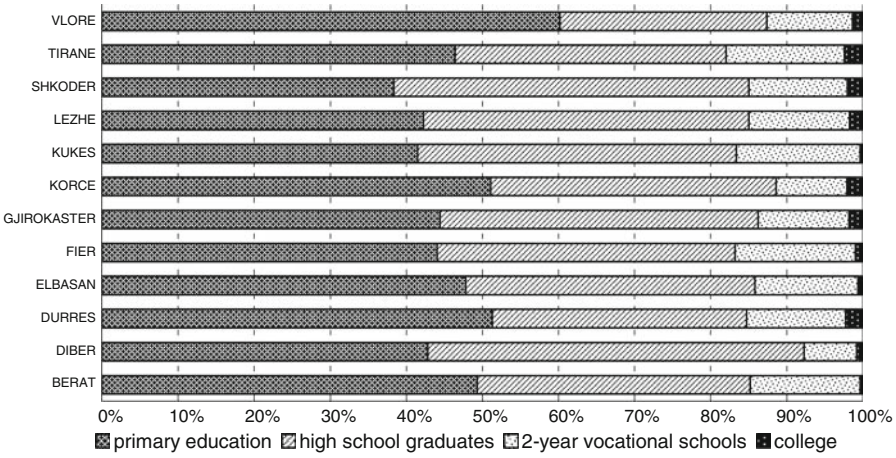

Fig. 5 Unemployment by education level

ports and have experienced high rates of emigration toward Italy and other Western European countries. Most unemployment could be concentrated among older individuals because they dominate the labour force in these cities.[5] The next section investigates the demographic characteristics of the unemployed in more detail.

Next the analysis turns to individual-level data provided by the Tirana Labour Office. The original dataset of 49,801 job-seekers was reduced to 49,549 observations after dropping clearly erroneous entries and people under the age of

[5] According to surveys by Papapanagos and Sanfey (2001) older Albanians are less likely to emigrate.

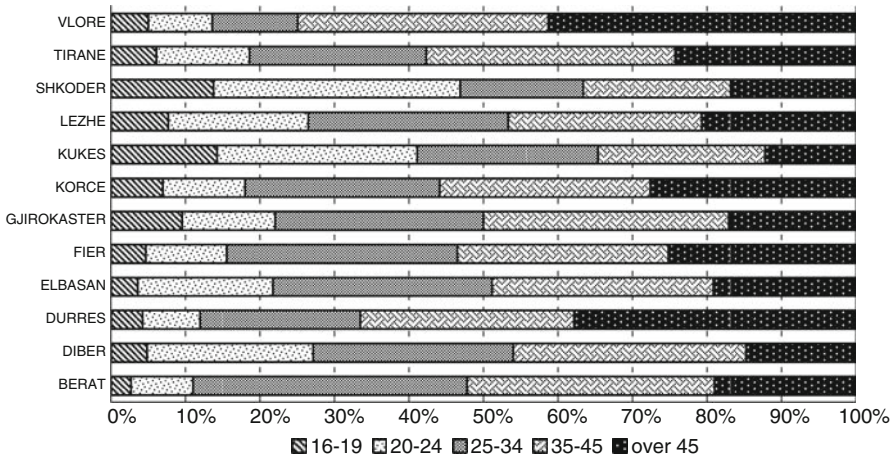

Fig. 6 Age composition of unemployed individuals

15 and over 65. Table 1 below summarizes characteristics of individuals registered at the Tirana Labour Office. The typical unemployed Albanian is about 40 years old, most likely married, with one child under the age of 15, has only primary education, and about 4 years' experience in his main occupation. Comparing these characteristics to all persons registered at this office, it appears that those who find employment tend to be male, younger, unmarried, with no young children, and better educated. Panels C and D of Table 1 separate the unemployed into two groups: those unemployed for more than a year and those unemployed for a shorter time. Recently unemployed individuals appear to be younger, better educated, and less likely to be married or have young children. This group predominantly includes students who are joining the labour market for the first time, as indicated by the substantially lower average experience. Finally, it should be noted that out of the 49,549 people registered between 2000 and May of 2005, some 32,875 individuals eventually found a job (66%). At this point it is unclear what the contribution of the labour office is to the employment of these individuals, since the assistance provided can range from simply supplying employment information to more extensive retraining and matching of workers to jobs.

Based on these characteristics of unemployed individuals, several important observations emerge. First, it appears that low education is at the heart of the unemployment problem. While this is to be expected, the two other trends, namely high unemployment among females and older individuals, require further investigation. Do these two demographic groups have higher unemployment rates because they tend to have less education? Or are there discriminatory practices in place that would require a different form of intervention? The next section turns to regression analysis to investigate these observed differences after netting out the effect of education on the likelihood of unemployment.

Table 1 Summary statistics for individuals registered at the Tirana Labour Office

Variable	Panel A. Registered individuals		Panel B. Unemployed as of 05/2005		Panel C. Unemployed for a year or more		Panel D. Unemployed for less than a year	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Female	0.43	0.49	0.49	0.50	0.49	0.50	0.47	0.50
Age	38	11	40	11	40	10	39	11
Married	0.43	0.50	0.62	0.48	0.66	0.47	0.46	0.50
Children under 15	0.44	0.92	0.97	1.20	1.08	1.22	0.49	0.97
Primary education	0.29	0.45	0.55	0.50	0.61	0.49	0.29	0.45
High school graduate	0.58	0.49	0.34	0.47	0.31	0.46	0.51	0.50
2-year vocational education	0.04	0.20	0.07	0.26	0.06	0.23	0.13	0.34
College education	0.09	0.29	0.03	0.16	0.02	0.13	0.07	0.25
Experience	1.98	4.66	4.03	6.23	4.74	6.52	0.97	3.34
Observations	49,549		16,674		13,539		3,135	

For binary variables, the mean represents the proportion of the sample in that particular category

Regression Results

The probability of being unemployed is estimated via probit and the results are presented in Table 2. The first two models confirm the previous observation that older individuals are more likely to be unemployed. The magnitude is relatively small, ranging from 1.3 to 2.3 percentage points. What is interesting is that the age penalty grows after controlling for human capital via education dummies. Models (3)–(6) omit age and instead include experience in the main profession (age, experience, and education would be collinear if included all at the same time). The control group includes people with primary education or no education at all. In models (2) and (3) education dummies have the expected signs. Their magnitude is very large practically, suggesting that formal education is a major factor in employment. In particular, vocational education appears to have a strong negative impact on the probability of being unemployed. In model (3) experience in main profession appears to have a *positive* effect on the probability of being unemployed. While puzzling at first, this finding is driven by the shift in employable skills in the Albanian labour market. The longer one has been employed in the same job or industry, the more likely it is for him/her to have narrowly specialized and, most likely, obsolete skills. The transition years and the ensuing privatization eliminated several industries (such as mining, the steel and coal industry, etc.) and spurred the growth of new industries, such as tourism and construction. It could be the case that workers with a diversity of skills are more easily trainable than workers that are narrowly specialized, and possess skills that are no longer valuable. Finally, the positive effect of experience on unemployment in models (3)–(6) sheds light into the question of why older individuals are more likely to be unemployed.

Models (4) and (5) add controls for gender, young children, and marital status. Females appear more likely to be unemployed (the estimated partial effect is three

Table 2 Estimates of the probability of unemployment

	(1)	(2)	(3)	(4)	(5)	(6)
Age	0.035	0.064				
	(0.004)***	(0.004)***				
	[0.013]	[0.023]				
$(Age)^2$	−0.0003	−0.001				
	(0.00005)***	(0.00005)***				
	[−0.0001]	[−0.0002]				
High school graduate		−0.198	−0.194	−0.162	0.235	0.225
		(0.031)***	(0.032)***	(0.032)***	(0.033)***	(0.033)***
		[−0.067]	[−0.065]	[−0.054]	[0.087]	[0.084]
2-year vocational education		−1.27	−1.149	−1.052	−0.891	−0.896
		(0.014)***	(0.014)***	(0.015)***	(0.016)***	(0.016)***
		[−0.443]	[−0.402]	[−0.368]	[−0.319]	[−0.321]
College degree		−1.752	−1.666	−1.53	−1.232	−1.225
		(0.028)***	(0.029)***	(0.029)***	(0.030)***	(0.030)***
		[−0.352]	[−0.342]	[−0.326]	[−0.304]	[−0.304]
Experience in main profession			0.165	0.106	0.033	0.033
			(0.003)***	(0.004)***	(0.004)***	(0.004)***
			[0.058]	[0.037]	[0.012]	[0.012]
$(Experience)^2$			−0.005	−0.003	−0.0005	−0.0005
			(0.0002)***	(0.0002)***	(0.0002)***	(0.0002)***
			[−0.002]	[−0.001]	[−0.002]	[−0.002]
Female				0.083	0.062	−0.05
				(0.014)***	(0.015)***	(0.020)**
				[0.029]	[0.022]	[−0.018]
Married				0.193	0.147	0.036
				(0.015)***	(0.016)***	(0.021)*
				[0.068]	[0.053]	[0.013]
Female × married						0.237
						(0.030)***
						[0.087]
Children				0.366	0.268	0.266
				(0.008)***	(0.009)***	(0.009)***
				[0.128]	[0.096]	[0.095]
Year of registration with the labour office	No	No	No	No	Yes	Yes
Observations	49,549	49,549	49,549	49,549	49,549	49,549
Log likelihood	−31,481	−26,030	−24,313	−22,802	−19,998	−19,965
Pseudo R^2	0.01	0.18	0.23	0.28	0.37	0.37

All models estimated using probit. Standard errors are shown in parentheses. Partial effects presented in square brackets

* Significant at 10%; ** significant at 5%; *** significant at 1%

percentage points, or 9%). However, this effect is limited to married females. Model (6) includes an interaction of married and female, which is highly positive and significant, but at the same time the coefficient on females becomes negative. Married individuals are also less likely to be employed, and the effect is quite large. This effect is puzzling when compared to the marriage premium in the US labour markets (see, for example, Korenman and Neumark 1991). However, it could be the case that married individuals are less likely to seek employment in the informal labour market because such arrangements do not provide health and other benefits. This explanation is highly speculative, but the data do not provide more insights into this issue. The presence of young children is also associated with a higher probability of unemployment. Since the data include individuals who are actively seeking jobs (by visiting labour offices, etc.), the effect of children on unemployment is less likely to be due to labour supply. It could, however, be the case that individuals who are more mobile (not married, no small children) are more employable, especially in the growth industries such as international trade and construction.

Conclusion

This paper provides an overview of labour market trends in Albania during 2000–2005. Using administrative micro-data, the analysis identifies the principle features of unemployed individuals in Albania. For a country with high unemployment rates, ranging from 12 to 18% during the past decade, and extreme population mobility, understanding the characteristics of those who are unemployed at present becomes imperative for choosing and implementing labour policies in the future. This study draws information from a variety of sources, including national official data, and data from regional labour offices.

It appears that older and less-educated individuals are more likely to be unemployed. Contrary to expectations, however, high unemployment among the older cohorts is not due to lower education, but to specialization in skills and industries that are largely obsolete. There is some indication that age discrimination may play a role, based on reports from the regional labour offices.

Formal education appears to be the most important predictor of employment. Interestingly, vocational education has a strong positive impact on finding a job. In other labour markets, the effect of vocational education has been a matter of debate (see, for example, Neuman and Ziderman 1991, 1999, and Hotchkiss 1993). This finding provides support for the current education reform in Albania that aims to boost vocational education (Ministry of Education and Science 2005).

Another finding is that females are more likely to be unemployed. While one explanation is gender discrimination, the evidence suggests that mobility is also an important factor. Married females and individuals with young children are more likely to be unemployed. Single females with no children are more likely to be employed than single males with no children, suggesting that mobility, rather than discrimination drives the gender gap in employment. One reason why mobility could have such a strong effect on employment is that the industries that have

experienced the highest growth in recent years (trade, construction, and tourism) have been those that favour more mobile individuals. However, an alternative explanation is that married individuals with young children may be less likely to seek employment in the relatively large informal sector in the country, and, therefore, are disproportionately represented among the unemployed in official data. These findings suggest that age discrimination laws, retraining of workers with obsolete skills, and other adult education initiatives may be important considerations in future policy decisions.

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